AR14

PanCanadian Petroleum Limited

AMALGAMATION, 1971, OF CENTRAL-DEL RIO OILS LTD AND CANADIAN PACIFIC OIL AND GAS LTD

Annual Report

1971

PanCanadian Petroleum Limited

Annual Report for the Year Ended December 31, 1971

Contents

1	Two Year Comparative Highlights
2	Report to the Shareholders
4	Exploration and Development
4	Capital Expenditures
4	Land
7	Geological and Geophysical
7	Drilling
10	Production
10	Crude Oil
11	Natural Gas and Associated Products
13	Employees
14	Map
20	Financial
21-27	Financial Statements
28	Seven Year Statistical Review

Special and Annual General Meetings

A Special General Meeting of Shareholders will be held in the Marquis Room of the Palliser Hotel, Calgary, Alberta at 10:00 a.m., on Friday, April 21, 1972. The Annual General Meeting will be held at the same place immediately following the termination of the Special General Meeting. Notice of the meetings, information circular and form of proxy are being mailed to each Shareholder with this report.

Two Year Comparative Highlights

The figures shown below combine the operations of Central-Del Rio Oils Limited with the operations of Canadian Pacific Oil and Gas Limited

	1971	1970	% Increase
Financial			
Gross Income	$39,432,151	$34,928,373	12.9
Cash Generated from Operations	30,597,938	27,142,905	12.7
Per Share	1.00	.89	
Net Income From Operations	14,097,338	11,884,040	18.6
Extraordinary Items	399,812	750,904	
Total	14,497,150	12,634,944	14.7
Per Share From Operations	.46	.39	
Extraordinary Items	.02	.02	
Total	.48	.41	
Cash Dividends	9,560,462	8,830,005	8.3
Per Share	.31	.29	
Capital Expenditures	24,850,831	22,403,371	10.9
Long Term Debt	32,706,463	22,764,605	43.7
Working Capital (Deficiency)	(1,793,776)	(3,448,984)	48.0
Operations			
Production—net (daily)			
Oil—bbls.	25,827	24,394	5.9
Natural Gas—MMcf.	179.3	161.8	10.8
Natural Gas Liquids—bbls.	2,703	2,192	23.3
Sulphur—l.t.	253	224	12.9
Drilling Record			
Exploratory Wells Drilled	45	55	
Successfully Completed	14	20	
Development Wells Drilled	38	27	
Successfully Completed	21	21	
Net Oil Wells	447.2	425.7	
Net Gas Wells	323.4	276.9	
Net Acres	14,930,372	16,768,363	

Report to the Shareholders

On behalf of the Board of Directors, it is our pleasure to present the 1971 Annual Report of PanCanadian Petroleum Limited. The amalgamation of PanCanadian Petroleum Limited, formerly Central-Del Rio Oils Limited, and Canadian Pacific Oil and Gas Limited was completed on December 31, 1971. As a result your Company became the largest independent Canadian owned producer of crude oil and natural gas in Canada. In conjunction with this development, the Company experienced the most successful year within the records of its predecessor companies. Our broadening exploration program ranks us among the leaders of Canadian owned companies in the search for petroleum in Canada.

Gross income reached $39,432,151 in 1971, a gain of $4,503,778 or 12.9% over 1970. Net income for the year, after provision for deferred income taxes was $14,497,150 or 48¢ per share, compared with $12,634,944 or 41¢ per share in 1970, an increase of 14.7%. Cash generated from operations increased 12.7% to $30,597,938 or $1.00 per share in 1971 from $27,142,905 or 89¢ per share, in 1970. Included in the net income and cash generated figures were extraordinary gains of $399,812 from the conversion of a bank loan from United States to Canadian currency in 1971 and $750,904 related to the gain on the sale of investments in 1970.

The Company recently provided for a $25,000,000 principal amount of 8⅛% secured debentures to be issued March 1, 1972 maturing March 1, 1992. The issue will net $24,350,000 for the Company and will be used for general corporate purposes, to finance capital expenditures and to retire a portion of the Company's bank loans.

The Company can report an expansion in all phases of its exploration program in 1971 with expenditures increasing by $1.2 million to $20.9 million. Highlighting this expanded program was increased exploratory drilling in the Alberta Foothills and the Northwest Territories. Other major developments included the purchase of extensive prospective acreage in Montana, completion of a joint venture agreement with a large Italian company covering approximately 2 million acres in Italy, the Adriatic and Tyrrhenian Seas, completion of arrangements to participate in an exploratory well in the North Sea and acquisition of additional permits in the northern United Kingdom sector of the North Sea.

The Company's 9.03% interest in Panarctic Oils Ltd. gives access to what could prove to be substantial future oil and gas reserves in the Canadian Arctic. The third gas discovery in as many years, and the first oil discovery announced in February 1972, in the Arctic Islands by Panarctic Oils, vouches for the optimism shown for its potential.

The acquisition of the Canadian and United States assets of Mana Resources, Inc., which consolidated our position in the Countess area, has increased our recoverable oil and natural gas reserves. Among the other assets acquired were approximately 175,000 net acres of undeveloped acreage in Canada.

During 1971 our crude oil production increased by 1,433 barrels per day to 25,827 barrels per day, natural gas liquids increased by 511 barrels per day to 2,703 barrels per day and natural gas production increased by 17 million cubic feet per day to 179 million cubic feet per day. Your Company's reserves of crude oil and natural gas liquids increased by 14.6 million barrels after taking into account production for the year. Despite added reserves of natural gas of 55 billion cubic feet, remaining reserves at year end were down by some 10 billion cubic feet due to the large increase in production volume during 1971.

The 25 cents per barrel increase in crude oil prices which took place in December of 1970, supplemented by the 10 cents per barrel rise in the price of crude oil going into the Bow River pipeline system, effective in February of 1971, contributed substantially to our improved earnings picture. Further improvement in crude oil or natural gas prices is bound to encourage the search for and development of reserves which are known to exist in the central plains area of Alberta where the Company has an extensive land spread.

The National Energy Board's recent decision to restrict the further export of natural gas was based upon a desire to safeguard Canada's future gas supply for domestic requirements. To overcome the impending scarcity of this commodity, a substantial price increase must be forthcoming to stimulate the search for new gas reserves. Two recent important developments provide grounds for confidence that there will be an improvement in natural gas prices over the immediate and longer term. The Alberta Government has expressed concern over the existing low field pricing structure and the Alberta Energy Resources Conservation Board is presently holding special hearings on this subject. Secondly, your Company will soon commence renegotiation of prices paid under a number of its existing gas contracts.

The increase in oil prices accompanied by the continued growth in production during 1971 culminated a year of accelerated expansion throughout the Canadian petroleum industry. Increasing demand for petroleum products from foreign and domestic markets gives promise of a continuation of this trend. Your Company's interests in the potentially productive Canadian north, its extensive holdings in Western Canada and its recent move into foreign operations assures it of a foremost position within a progressive and expanding industry.

It is with considerable regret that the Board of PanCanadian announces that John F. Hardy has requested that his name not be placed in nomination as a Director of the Company. A veteran wildcatter in the United States in the years between the World Wars, John Hardy was General Manager of Central-Del Rio Oils during the period in which it discovered and developed Saskatchewan's largest oil field near Weyburn. Later he became President and then Chairman of the Board following the integration with Canadian Pacific Oil and Gas and held that position until last year. We wish to express our gratitude for the long service Mr. Hardy rendered to both our Company and the Canadian oil industry of which he was an acknowledged leader.

In order to broaden the scope of your Board of Directors an amendment to the by-laws increasing the number of Directors from nine to twelve will be submitted for approval at the Special General Meeting on April 21, 1972.

Achievement of corporate objectives is only possible through the combined efforts of a diligent and competent staff. Your directors recognize this valuable contribution and in so doing are pleased to take this opportunity to express their appreciation to the staff for their participation in the attainment of your Company's most successful year.

R. A. Campbell
Chairman of the Board
and Chief Executive Officer.

John Taylor
President.

Calgary, Alberta.
March 15, 1972.

Exploration and Development

Capital Expenditures

Capital expenditures totalled $24.9 million in 1971 compared with $22.4 million in 1970. Land acquisition and retention accounted for $4.1 million, the majority of which was used to purchase lands in Western Canada. Geological and geophysical exploration costs totalled $3.9 million. Programs involved areas of Alberta, Montana, the Northwest Territories and Quebec. Well costs totalled $8.7 million of which $7.5 million was exploratory drilling and $1.2 million was development drilling. Administration and taxes totalled $3.8 million bringing total exploration and development costs to $20.5 million. Expenditures on production facilities and equipment increased to $4.4 million in 1971 primarily the result of the construction of the waterflood project at Countess.

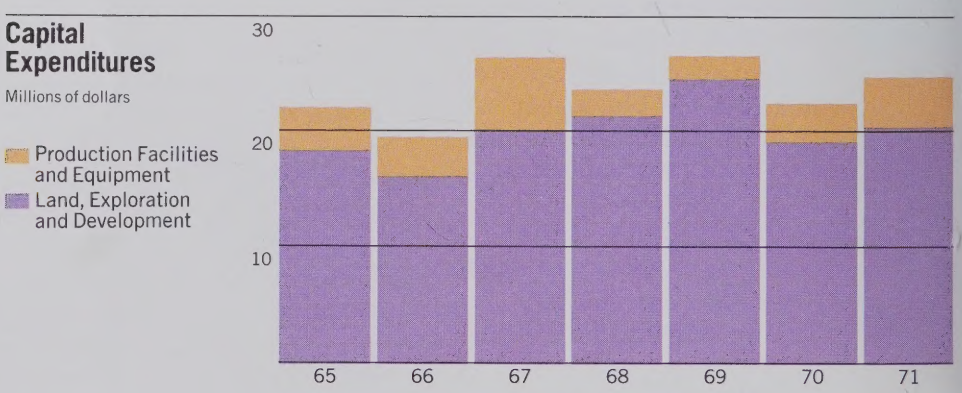
Capital Expenditures

	1971	1970
Exploration and Development		
Land Acquisition and Retention	$ 4,059,449	$ 6,584,219
Geological, Geophysical & Overhead	7,681,394	6,655,013
Exploratory Drilling	7,607,686	5,023,209
Total Exploratory	19,348,529	18,262,441
Development Drilling	1,129,183	843,969
	20,477,712	19,106,410
Production Facilities and Equipment	4,373,119	3,296,961
	$24,850,831	$22,403,371

Exploration expenditures shown above do not include investment in Panarctic Oils Ltd. — 1971 $1,572,820, 1970 $1,451,486.

Capital Expenditures

Millions of dollars



Land

A total of $4.1 million was expended on the acquisition and retention of petroleum and natural gas rights in 1971. Of this amount $3.2 million was used to purchase 308,947 gross acres (283,027 net acres) in Alberta, British Columbia and Montana.

An acquisition was made in the Ukalta area northwest of Edmonton where a 100% interest in 88,240 acres was purchased giving the Company extensive holdings in one of its gas producing areas. A 74% interest in 84,534 acres was acquired in Glacier County, Montana which provides a broad interest in a continuation of the Foothills belt of southern Alberta. Acquisitions of 19,157 acres at Snake Creek and 21,178 acres at Marion Lake, have extended

the Company's holdings in northeastern British Columbia. A 42,240 acre acquisition was made at Chinchaga in northwestern Alberta in which a 100% interest is held. The remaining 53,598 gross acres (49,657 net acres) are scattered throughout prospective areas of Alberta, notably Ferrybank, Sheep River, Joarcam, and the Foothills west of Calgary.

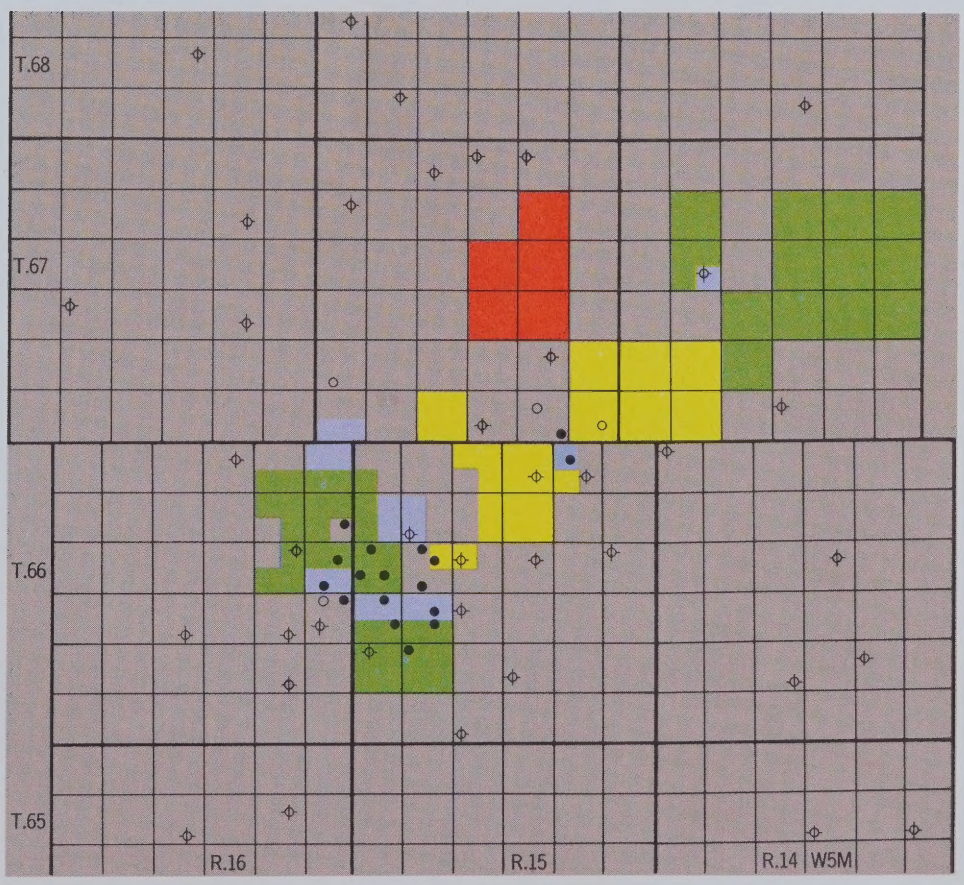
Through the drilling of an exploratory well on the Ile d'Orleans, a 30% working interest was earned in 251,250 acres of oil and gas licenses in Quebec.

An agreement between Societa Italiana Resine and the Company involving the joint exploration of approximately 2 million acres on mainland Italy and the offshore areas of both the Tyrrhenian and Adriatic Seas was recently concluded.

Through the Company's wholly owned United Kingdom subsidiary, Canadian Pacific Oil and Gas of Canada Limited, a 4.5% interest was acquired in licenses covering 75,162 acres in the British sector of the North Sea.

Acreage farmed out during the year totalled 1,842,408 acres of which 1,162,589 are in Alberta, 561,146 in British Columbia, 92,760 in the Northwest Territories and the remaining 25,913 acres in Saskatchewan and Manitoba. The Company retains either a working interest or an overriding royalty interest on all lands farmed out. Farmouts in 1970 totalled approximately 1.7 million acres.

A detailed table of the Company's working interest holdings in petroleum and natural gas rights can be found on page 15 accompanying the map of Western Canada.





Meekwap, Northern Alberta

PanCanadian Working Interest

- 100%
- 50% to 75%
- 25% to 50%
- Less than 25%
- Location
- Oil Well
- Abandoned

0 1 2 3 4 5 6

SCALE IN MILES


North Sea
Company Acreage
Oil Fields
Gas Fields
Sea Level
100 Fathoms
0
100
200
SCALE IN MILES
12°
9°
6°
3°W.
0°
3°E.
6°
9°
12°
60°
57°
54°
51°
SHETLAND ISLANDS
NORWAY
FRIGG
ORKNEY ISLANDS
OUTER HEBRIDES
FORTIES
NORTH SEA
ECHOFISK
NORWAY
DENMARK
SCOTLAND
DENMARK
W. GERMANY
UNITED KINGDOM
NETHERLANDS
N. IRELAND
W. SOLE
VIKING
INDEFATIGABLE
DEBORAH
LEMAN BANK
HEWETT
IRELAND
ENGLAND
WALES
NETHERLANDS
GERMANY
IRELAND
U.K.
BELGIUM
FRANCE
LUXEMBOURG
FRANCE

Geological and Geophysical

Evaluation of Company lands encompassed far reaching areas of Western Canada with additional work being done in Quebec and Montana. Exploration was also started on the Company's Italian holdings and in the North Sea.

Once again the most active area of concentration was the Foothills belt with programs ranging from Montana to the Northwest Territories. A photo-geographical study of the newly acquired Montana acreage was completed. Additional regional seismic programs were initiated in the area last fall and will continue into 1972.

Seismic programs were carried out in several areas of the southern Foothills of southwestern Alberta. Most of these programs were completed in late summer or fall and several drilling locations were subsequently chosen. Other seismic exploration took place earlier in the year on large acreages acquired in the Ukalta and Chinchaga areas of Alberta. Seismic programs were carried out in the Northwest Territories at Ft. Simpson, Cranswick and Tenlen. The Cranswick program indicated an excellent prospect which is currently being drilled.

Drilling

A total of 355 wells were drilled on Company lands in 1971 of which 83 were working interest wells and 272 were royalty interest wells. Of the total, 292 wells were drilled on Company lands free of cost to the Company. This total includes all of the royalty wells plus 20 of the working interest wells.

Of the working interest wells, 19 (9.390 net) were successful oil wells and 16 (7.606 net) were successful gas wells. A total of 34 of the royalty wells were successful oil wells and 143 were successful gas wells.

Drilling Record

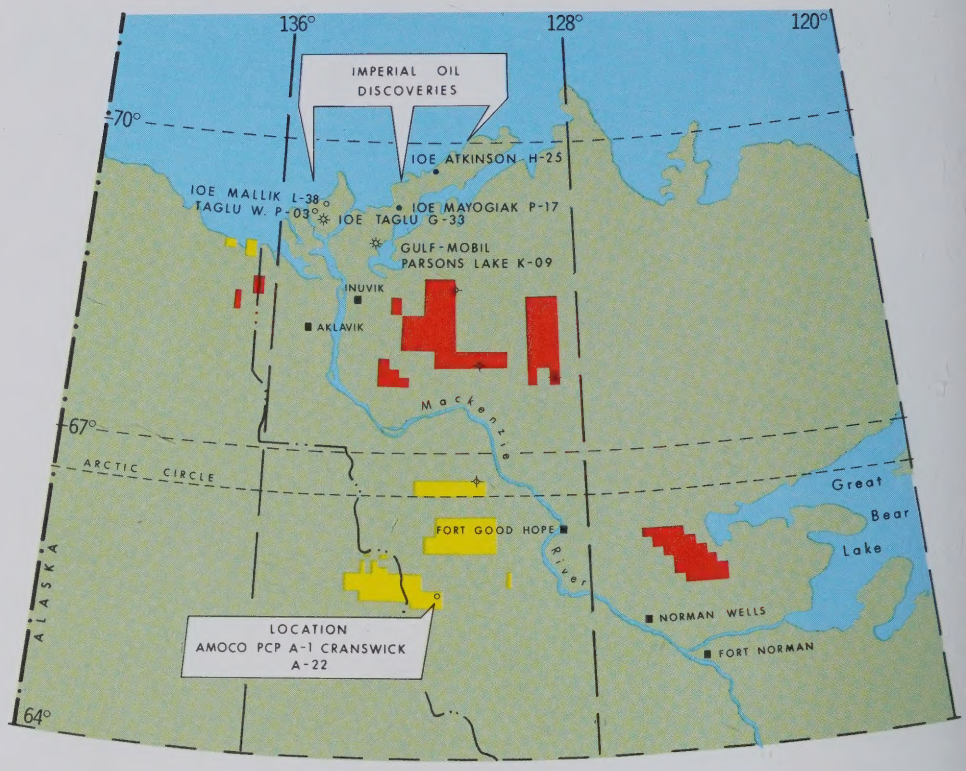
	Oil		Gas		Dry		Total	
EXPLORATORY	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Alberta	1	.500	11	5.038	24	16.125	36	21.663
British Columbia			1	.500	2	1.500	3	2.000
Italy					1	.350	1	.350
Northwest Territories			1	.423	2	1.500	3	1.923
Quebec					1	.300	1	.300
Saskatchewan					1	.500	1	.500
	1	.500	13	5.961	31	20.275	45	26.736
DEVELOPMENT								
Alberta	17	8.390	3	1.645	17	8.575	37	18.610
Manitoba	1	.500					1	.500
	18	8.890	3	1.645	17	8.575	38	19.110
TOTAL								
Alberta	18	8.890	14	6.683	41	24.700	73	40.273
British Columbia			1	.500	2	1.500	3	2.000
Italy					1	.350	1	.350
Manitoba	1	.500					1	.500
Northwest Territories			1	.423	2	1.500	3	1.923
Quebec					1	.300	1	.300
Saskatchewan					1	.500	1	.500
	19	9.390	16	7.606	48	28.850	83	45.846

Mackenzie Delta, Northern Yukon and Northwest Territories

- PanCanadian 50% Working Interest
- PanCanadian 100% Working Interest
- ○ Location
- • Oil Well
- ✲ Gas Well
- ✲ Abandoned

0 30 60 120 180

SCALE IN MILES



Exploratory

Of the 83 working interest wells, 45 were exploratory resulting in one (0.500 net) oil well and 13 (5.961 net) gas wells. The oil well was drilled at Alderson in southern Alberta in which a 50% interest was retained. Four of the successful gas wells were in the north; one in the Northwest Territories at La Biche, 40 miles northwest of Ft. Liard, one in northeastern British Columbia and 2 northeast of Edmonton. The La Biche well tested gas at 6 million cubic feet per day. Further exploration is required to determine the development potential of this discovery. A 42.3% interest is held in this well and 50% interests are held in the balance.

Six successful gas wells were drilled in central Alberta, 4 in the Ferrybank area south of Red Deer of which 2 are wholly owned and 2 are 50% interests, and the others at Edgerton and Donalda in east central Alberta in which interests of 25% and 14% are held respectively.

Three gas wells were completed successfully in southern Alberta, 2 with a 25% interest near Tide Lake, east of Brooks, and the other with a 14.5% interest at Alderson.

Development

Development drilling accounted for the remaining 38 working interest wells with 18 (8.890 net) oil wells and 3 (1.645 net) gas wells being successful. Most of the development drilling was concentrated in southern Alberta where 18 successful wells were completed during the year. Eight of these were oil wells drilled in the Countess area in which interests of 50% to 52.5% are held. Two development oil wells were successfully completed in the Taber South Unit No. 1, earning the Company a 43.5% working interest in each. Successful oil wells at Horsefly, Lathom and Alderson were completed

with a 100% working interest being held in the Horsefly well and 50% working interests being held in the others. Two gas wells were completed at Alderson with working interests of 50% and 15%.

Successful oil wells at Gilby, Medicine River and David were completed with working interests of 27.9%, 6.14% and 50% respectively being retained by the Company.

A wholly owned gas well at Ferrybank in central Alberta, a 53% working interest oil well at Black Creek in northern Alberta and a 50% working interest oil well in Manitoba completed the Company's development drilling program.



Italy

- Company Acreage
- Acreage Applied For
- Oil Field
- Gas Field
- Sea Level
- 100 Fathoms

0 100 200

SCALE IN MILES

Production

Crude Oil

Production of crude oil totalled 9,426,553 barrels in 1971, a daily average of 25,827 barrels as compared with 24,394 barrels in 1970, an increase of 1,433 barrels per day or 5.9%.

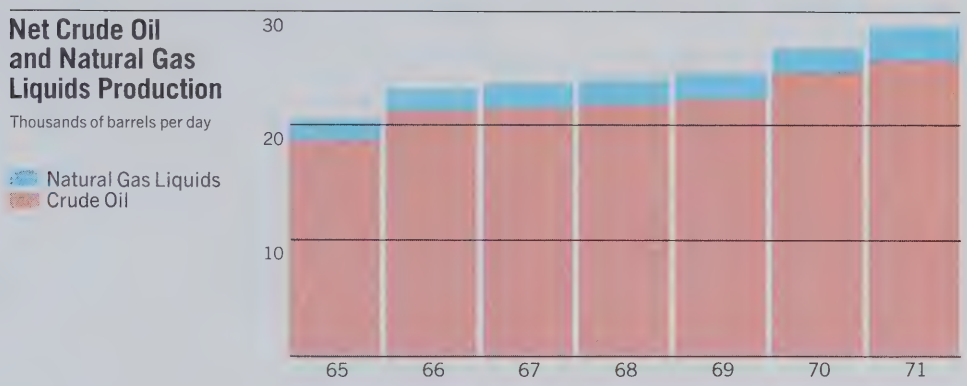
An increase in allowables resulting from greater demand from domestic and United States markets was the primary reason for the higher production. This was reflected particularly in the Wizard Lake area southwest of Edmonton where an increase of 382 barrels per day brought production to 2,079 barrels per day in 1971. Production in the Countess area in southern Alberta rose to 1,745 barrels per day, a gain of 8%. Other areas experiencing substantial increases over 1970 were the Fenn Big Valley, Pembina, Bellshill Lake, Lathom, and Parflesh fields, all located in Alberta. The combined increase from these five areas averaged 751 barrels per day.

With the completion of the Countess waterflood project scheduled for March of 1972, production in this area for the coming year can be expected to increase considerably.

The continuing increase in market demand for Alberta light crude, the installation of waterflood facilities, and the addition of over 50 new oil wells in 1971 in which varying interests are held, should substantially boost Company production of crude oil in 1972.

Net Crude Oil Production

Barrels Daily	1971	1970
ALBERTA		
Wizard Lake	2,079	1,697
Countess	1,745	1,609
Taber	1,664	1,784
Fenn Big Valley	1,171	1,050
Bantry	1,112	1,111
Horsefly	1,014	996
Bonnie Glen	742	661
Black	713	699
Westerose	639	714
Hussar	626	551
Pembina	484	346
Gilby	441	397
Lathom	379	217
Leduc	361	345
Redwater	305	264
Parflesh	297	70
Bellshill Lake	276	173
Wintering Hills	273	273
Joarcam	251	232
Medicine River	251	273
Other	2,341	1,763
	17,164	15,225
SASKATCHEWAN		
Weyburn	5,654	6,160
Flat Lake	625	602
Handsworth	407	434
Ratcliffe	399	361
Lake Alma	388	286
Macoun	288	372
Other	800	856
	8,561	9,071
MANITOBA	98	98
UNITED STATES	4	—
	25,827	24,394



Natural Gas and Associated Products

Net natural gas sales of 65.5 billion cubic feet in 1971 placed the Company among the top 10 producers of natural gas in Canada. The daily average of 179.3 million cubic feet represents an increase of 17.5 million cubic feet per day or 10.8% over 1970 production.

The higher production is attributable to an increase in contracted volumes and the addition of several new areas which were placed on stream late in 1970 or early 1971. The greatest increase occurred in the Jumping Pound area west of Calgary where an average of 18.2 million cubic feet per day were produced in 1971, up 7.3 million cubic feet per day over 1970. A further major increase in production is anticipated from Jumping Pound in 1972. The Ukalta, Calgary, South Carbon and Redland areas contributed 7.4 million cubic feet per day to the 1971 increase.

The construction of a gas cap blowdown system and solution gas gathering and processing facility at Countess was nearing completion at year end. The gas cap system and solution gas facility, in which a 75% interest is held by the Company, will handle a volume of up to 12 million cubic feet of natural gas per day.

A solution gas gathering and gas cap system is being installed in the Gilby-Medicine River area in west central Alberta with completion set for May, 1972. Construction of a gas system was completed at the Company's 1970 discovery at Ferrybank in central Alberta. This area is now on stream and will produce at about 4.8 million cubic feet per day.

With 159 new gas wells completed in 1971 and the prospect of many of these being on stream for a major portion of the year, production of natural gas is expected to increase significantly in 1972.

Production of net natural gas liquids averaged 2,703 barrels per day in 1971, an increase of 511 barrels per day or 23.3% over the 1970 average of 2,192 barrels per day.

A 12.9% increase in net sulphur production resulted in a daily average of 253 long tons. The increase of 29 long tons per day over 1970 production was almost entirely attributed to the Jumping Pound area which averaged 51 long tons per day as compared with 27 long tons per day the previous year.

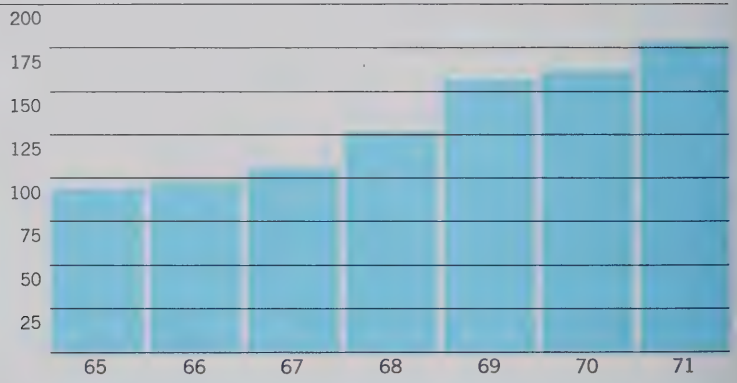
Sulphur sales also increased from 180 to 192 long tons per day, an increase of 6.7%. The selling price dropped further in 1971, averaging $6.42 per long ton as compared with $10.02 per long ton in 1970.

Net Natural Gas Production

Millions of Cubic Feet Daily	1971	1970
ALBERTA		
Countess	21.6	22.0
Jumping Pound	18.2	10.9
Calgary	17.3	14.7
Hussar	16.0	18.3
Alderson	13.2	13.8
Westerose South	10.6	10.2
Redland	9.1	8.4
Wintering Hills	8.8	10.9
Wayne	8.0	7.6
Gilby	4.2	4.3
Ukalta	4.2	.8
South Carbon	3.2	2.5
East Crossfield	2.9	2.8
Homeglen Rimbey	2.7	2.7
Verger	2.7	3.4
Nevis	2.2	2.2
Castor	2.1	—
Rosebud	2.1	1.9
Other	29.7	24.4
	178.8	161.8
UNITED STATES	.5	—
	179.3	161.8

Net Natural Gas Sales

Millions of cubic feet per day

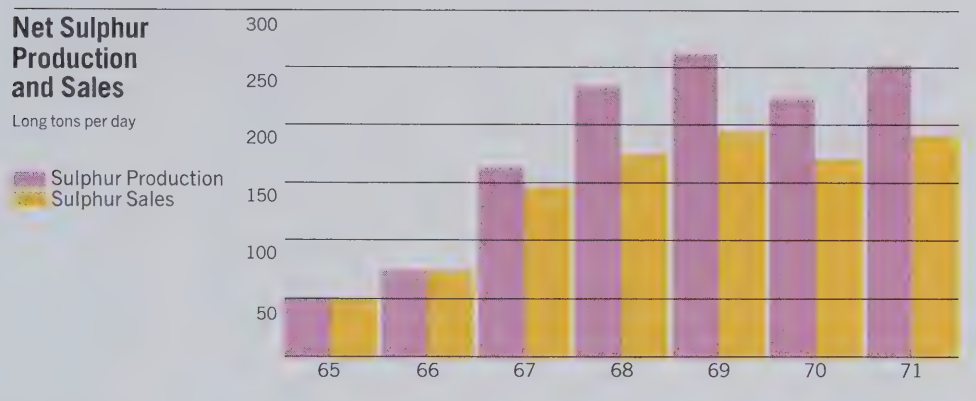


Net Natural Gas Liquids Production

Barrels Daily	1971	1970
ALBERTA		
Westerose	886	896
Jumping Pound	398	269
Calgary	337	166
Hussar	264	192
Homeglen Rimbey	184	178
Other	633	491
	2,702	2,192
UNITED STATES	1	—
	2,703	2,192

Net Sulphur Production

Long Tons Daily	1971	1970
ALBERTA		
Calgary	122	124
East Crossfield	64	59
Jumping Pound	51	27
Nevis	5	3
Westerose	5	5
Irricana	3	3
Homeglen Rimbey	2	2
Other	1	1
	253	224



Reserves (Proven Developed and Probable)

	1971	1970
OIL AND NATURAL GAS LIQUIDS (bbls.)		
Remaining Reserves at Jan. 1	203,647,400	189,558,590
Reserves Added	24,979,143	23,792,597
	228,626,543	213,351,187
Production	10,413,083	9,703,787
Remaining Reserves at Dec. 31	218,213,460	203,647,400
NATURAL GAS (MMcf.)		
Remaining Reserves at Jan. 1	1,637,158	1,428,003
Reserves Added	55,167	268,203
	1,692,325	1,696,206
Production	65,452	59,048
Remaining Reserves at Dec. 31	1,626,873	1,637,158
SULPHUR (l.t.)		
Remaining Reserves at Jan. 1	5,010,680	4,537,627
Reserves Added	(958,318)	554,858
	4,052,362	5,092,485
Production	92,422	81,805
Remaining Reserves at Dec. 31	3,959,940	5,010,680

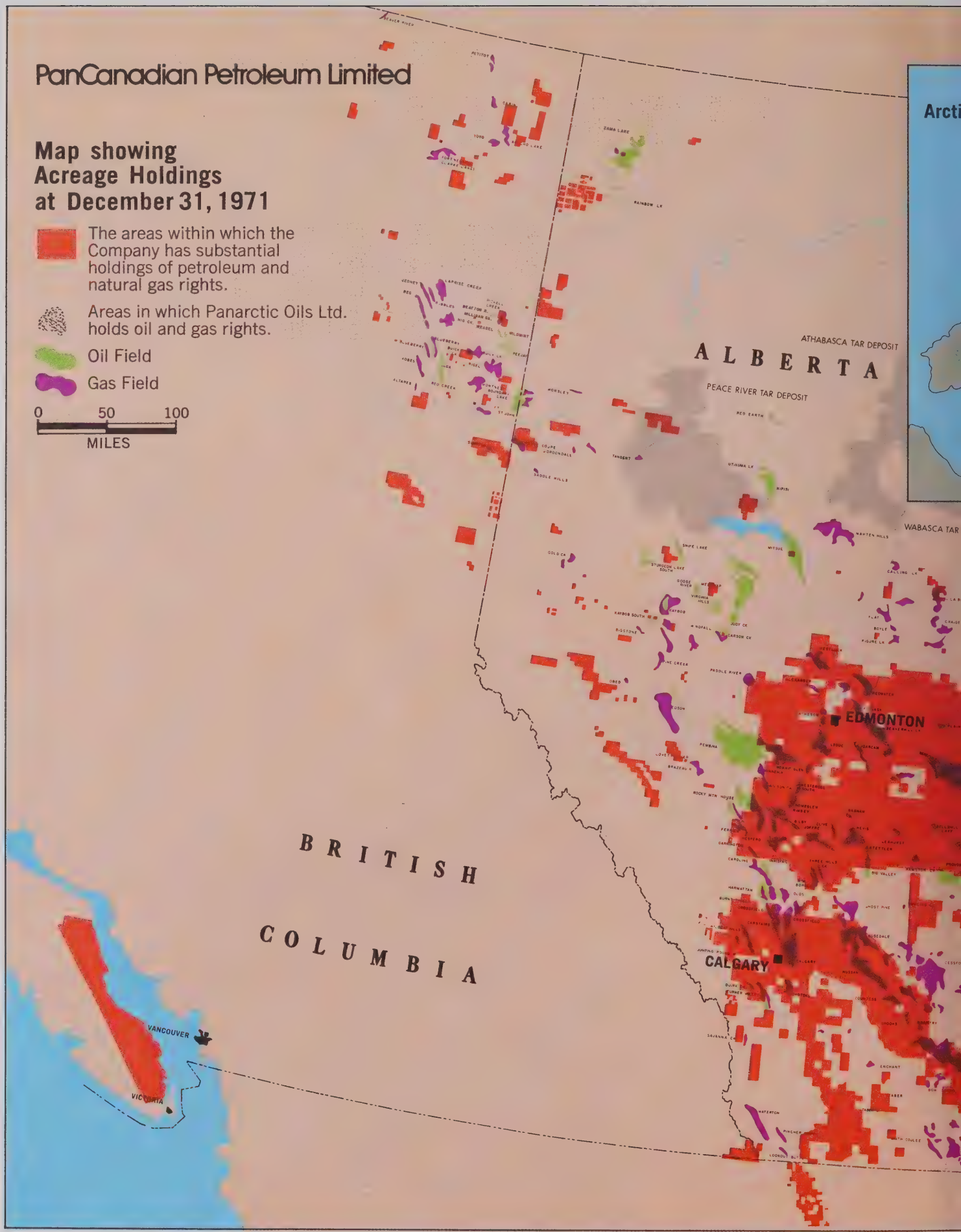
Proven Developed and Probable net reserves (after royalties) as evaluated by Company engineers.
"Proven Developed Reserves" are those reserves which can be produced from existing wells or facilities; "Probable Reserves" are those reserves estimated to be commercially recoverable as a result of the beneficial effects of future installation of secondary recovery methods or future improvements in the existing recovery mechanism.

Employees

During 1971, the staff of PanCanadian expanded from 383 to 412 employees. Salaries and wages increased to $3.9 million during the year compared to $3.4 million in 1970.

To encourage employees to update and add to their technical, professional and managerial skills PanCanadian Petroleum encourages attendance at work related seminars, university and technical school courses. In this regard the Company contributes both time and financial assistance and in addition is also a contributor to the three Alberta universities. During 1971, 96 or approximately 23% of our employees received further training through the Educational Assistance and the Training and Development Programs.

In 1971 five scholarships with a value of $500 each were awarded to children of employees under the Company's employees dependents scholarship program.


PanCanadian Petroleum Limited
Map showing
Acreage Holdings
at December 31, 1971
The areas within which the Company has substantial holdings of petroleum and natural gas rights.
Areas in which Panarctic Oils Ltd. holds oil and gas rights.
Oil Field
Gas Field
0 50 100
MILES
ALBERTA
ATHABASCA TAR DEPOSIT
PEACE RIVER TAR DEPOSIT
EDMONTON
CALGARY
BRITISH
COLUMBIA
VANCOUVER
VICTORIA



Working Interest Holdings in Petroleum and Natural Gas Rights

	At December 31, 1971 Gross Acres	Net Acres
Alberta	7,499,878	6,805,002
Northwest Territories & Yukon (1)	5,504,113	4,311,503
British Columbia (2)	932,751	820,548
Saskatchewan	2,383,895	2,347,677
Arctic Islands (3)	1,686,740	235,135
Manitoba	267,514	267,514
Quebec	251,250	75,375
North Dakota	11,506	1,956
Montana	84,534	62,280
North Sea	75,162	3,382
Total (4) (5)	18,697,343	14,930,372

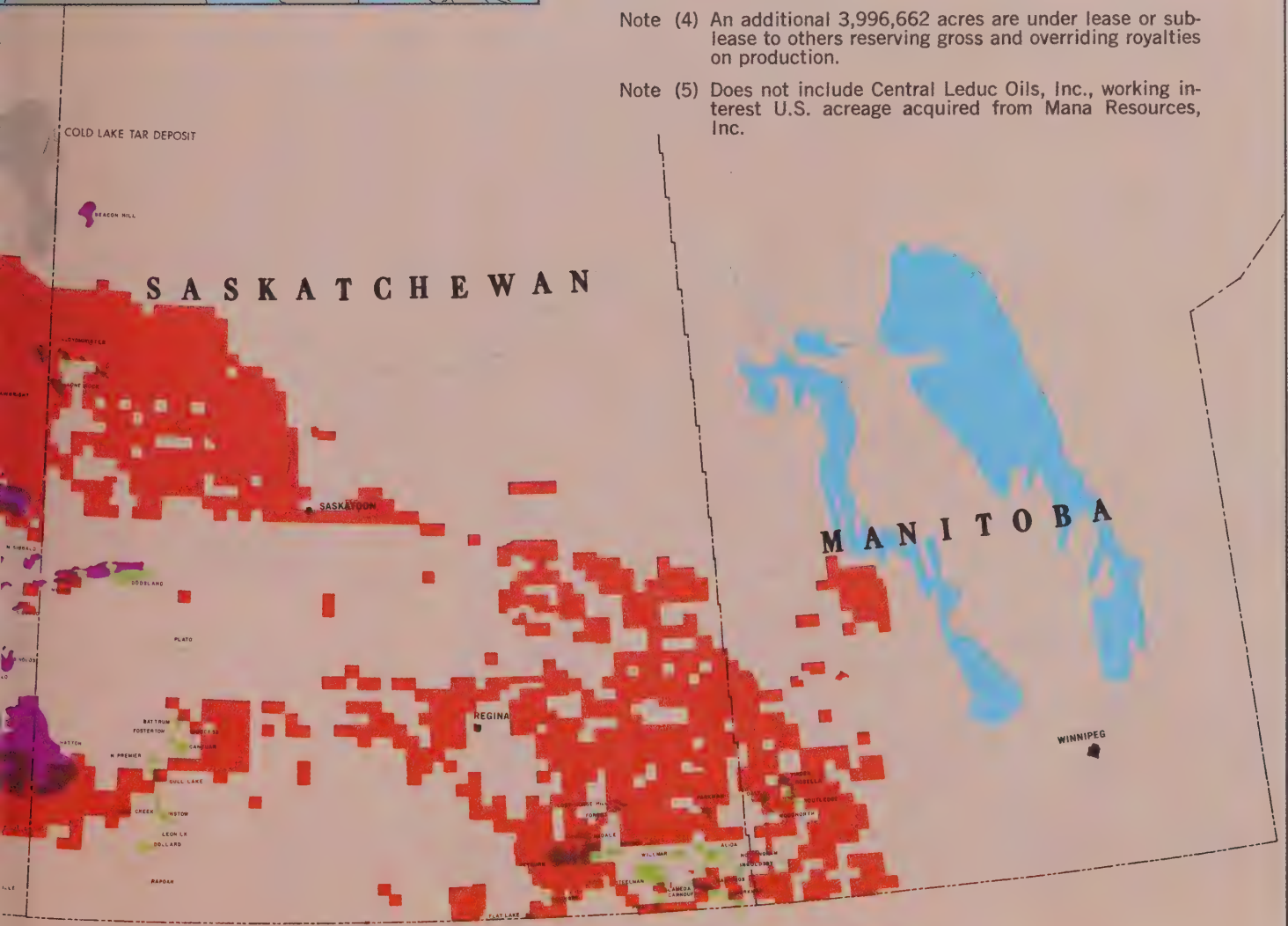
Note (1) In addition, the Company holds mineral prospecting permits covering 16,480 gross and net acres in the Keewatin District of the Northwest Territories.

Note (2) In addition, the Company owns mineral titles covering approximately 1,898,000 gross acres on Vancouver Island, B.C.

Note (3) This does not include the Company's interest in Panarctic Oils Ltd.

Note (4) An additional 3,996,662 acres are under lease or sublease to others reserving gross and overriding royalties on production.

Note (5) Does not include Central Leduc Oils, Inc., working interest U.S. acreage acquired from Mana Resources, Inc.



Drilling an exploratory well on Company acreage at West Pekisko, southern Foothills of Alberta.



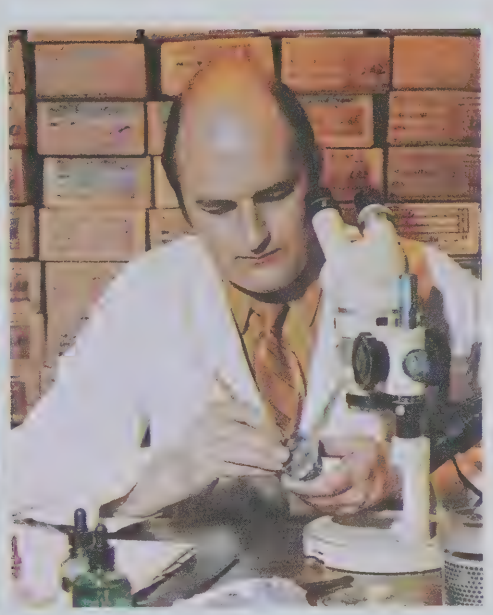
Viewing exploratory drilling operations, Ile d'Orleans, Quebec.





Hoisting pipe from hole to install a new bit, West Pekisko.





Geological technician studying outcrop sample.





"Ocean Tide" offshore drilling rig to drill in North Sea on acreage held by Company and partners.

Interior of Company operated waterflood injection plant at Countess, Alberta.



Company geological well files.





Pollution control device at Company operated Weyburn oil unit, Saskatchewan.

Integrator operator recording gas flow data received from Company gas plants.









Interior of Company operated gas plant, Ukalta, Alberta.

Financial

Gross revenue for 1971 totalled $39.4 million, an increase of $4.5 million or 12.9% over the 1970 gross revenue of $34.9 million. A 7.3% increase in net production of crude oil and natural gas liquids, a 25¢ per barrel increase in crude oil prices and a 10.8% increase in net natural gas production were the main reasons for the gain in revenue.

Expenses in 1971 amounted to $19.8 million, an increase of $1.5 million or 8.5% over the 1970 total of $18.3 million. This can be attributed to an increased provision for depletion and increased operating expenses resulting from greater production.

Net income, after provision for deferred income taxes, totalled $14.5 million in 1971, equivalent to 48¢ per share compared with $12.6 million and 41¢ per share in 1970. The increase of $1.9 million is 14.7% higher than the net income of 1970. Cash generated from operations amounted to $30.6 million in 1971, equivalent to $1.00 per share as compared with $27.1 million and 89¢ per share in 1970, an increase of $3.5 million or 12.7%. Included in the net income and cash generated figures are extraordinary gains of $399,812 from the conversion of a bank loan from United States to Canadian currency in 1971 and $750,904 related to the gain on the sale of investments in 1970.

Total capital expenditures for the year of $24.9 million was 10.9% higher than the previous year's expenditures of $22.4 million.

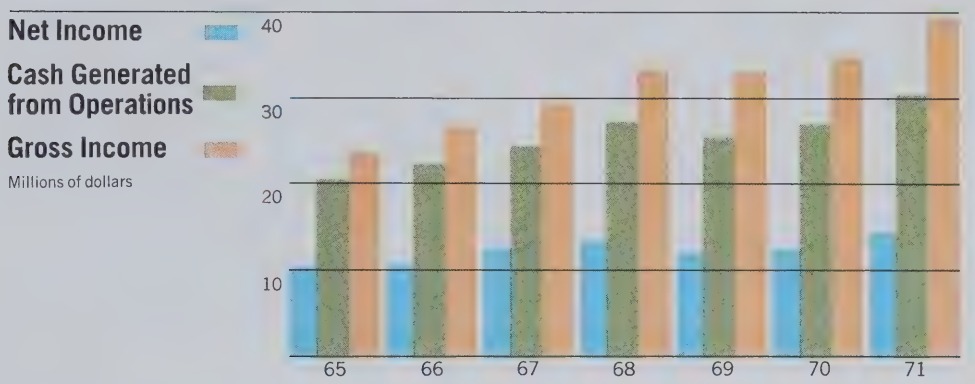
The Company's exploration expenditures, consisting of land, geological, geophysical, overhead and exploratory drilling, totalled $19.3 million. In addition, $1.6 million was advanced to Panarctic Oils Ltd. in 1971 for exploration of the Canadian Arctic bringing the grand total spent by PanCanadian on exploration in 1971 to $20.9 million. Since the Company commenced its participation in the Panarctic consortium in 1968, it has invested a total of $4.9 million.

At December 31, 1971, the Company's total long term debt outstanding was $32.7 million which represents 17% of total capitalization.

On December 2, 1971, an agreement was finalized with Mana Resources, Inc., of Dallas, Texas, whereby all of its Canadian and United States assets were acquired in exchange for 732,601 shares of the Company. The assets acquired included 14.9 million barrels of oil reserves and 27.3 billion cubic feet of proven natural gas reserves as determined by Company engineers.

Operating Revenues

	1971		1970	
	Amount	%	Amount	%
Crude Oil	$23,276,100	60.2	$19,626,099	57.9
Natural Gas Liquids	1,881,058	4.9	1,514,881	4.5
Natural Gas	9,396,217	24.3	8,611,198	25.4
Sulphur	449,083	1.2	629,258	1.8
	35,002,458	90.6	30,381,436	89.6
Lease Rentals	3,639,901	9.4	3,538,035	10.4
	$38,642,359	100.0	$33,919,471	100.0



Consolidated Statement of Income and Retained Income for the Year Ended December 31, 1971

	1971	1970
Income:		
Operating revenue	$38,642,359	$33,919,471
Interest income from affiliated companies	219,803	326,150
Miscellaneous	569,989	682,752
	39,432,151	34,928,373
Expenses:		
Operating	5,482,358	4,879,970
Administrative	1,714,050	1,316,245
Interest	2,037,617	2,340,157
Depreciation (Note 1)	2,423,294	2,498,291
Depletion (Note 1)	8,144,034	7,215,608
	19,801,353	18,250,271
Income before income taxes and extraordinary item	19,630,798	16,678,102
Provision for income taxes (Note 2)	5,533,460	4,794,062
Income before extraordinary item	14,097,338	11,884,040
Extraordinary item:		
Gain on conversion of bank loan from United States to Canadian currency	399,812	–
Profit on sale of securities	–	750,904
Net income for the year	14,497,150	12,634,944
Retained income at beginning of year	34,609,767	30,804,828
	49,106,917	43,439,772
Dividends ($.31 per share in 1971, 1970 – $.29)	9,560,462	8,830,005
Retained income at end of year	$39,546,455	$34,609,767
Earnings per share:		
Income before extraordinary item	$.46	$.39
Net income for the year	$.48	$.41

Consolidated Balance Sheet December 31, 1971

Assets

	1971	1970
Current assets:		
Cash	$ 777,545	$ 475,493
Term deposits with affiliated company	1,545,386	3,336,360
Accounts receivable	7,539,148	6,406,910
Inventories, at average cost –		
Products	527,598	487,757
Materials	387,812	513,430
	10,777,489	11,219,950
Property, plant and equipment, at cost:		
Petroleum, natural gas and mineral properties (Note 1)	216,650,283	185,745,915
Less: Accumulated depletion	(48,903,640)	(41,055,630)
Plant, production and other equipment	37,430,671	31,966,338
Less: Accumulated depreciation	(18,411,447)	(16,174,259)
	186,765,867	160,482,364
Other assets, at cost:		
Drilling, reservation and other deposits	1,007,118	804,289
Investments in non-controlled companies –		
Panarctic Oils Ltd. (Note 6)	4,865,016	3,292,196
Other	991,360	984,062
	6,863,494	5,080,547
	$204,406,850	$176,782,861

Liabilities

	1971	1970
Current liabilities:		
Accounts payable and accrued liabilities	$ 8,816,294	$ 8,033,869
Due to affiliated companies	838,305	783,945
Current portion of long term debt	2,916,666	5,851,120
	12,571,265	14,668,934
Long term debt (Note 3):		
Bank loans	35,623,129	28,615,725
Less: Current portion	2,916,666	5,851,120
	32,706,463	22,764,605
Deferred credits:		
Deferred rentals	412,801	374,099
Deferred income taxes (Note 2)	46,689,428	41,155,968
	47,102,229	41,530,067
Shareholders' equity (Notes 4 and 5):		
Capital stock –		
Authorized –		
50,000,000 shares of $1 par value		
Issued –		
31,197,972 shares of which 741,494 shares were issued in 1971	31,197,972	30,456,478
Paid in surplus	41,282,466	32,753,010
Retained income	39,546,455	34,609,767
	112,026,893	97,819,255
	$204,406,850	$176,782,861

APPROVED ON BEHALF
OF THE BOARD:

Director

Director

Notes to Consolidated Financial Statements December 31, 1971

Note 1 - Accounting practices:

Foreign currency balances included in the consolidated financial statements have been expressed in Canadian dollars on the following basis:

Current assets and liabilities – at the rate of exchange December 31, 1971.

Other assets and liabilities – at historical rates of exchange.

Income and expenses – at monthly rates of exchange except provisions for depreciation and amortization which are translated on the same basis as the related assets.

The Companies follow the full cost method of accounting for oil and gas properties whereby all costs relating to the exploration for and the development of oil and gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, and overhead expenses related to exploration activities. These costs are depleted by the unit of production method based on estimated proven oil and gas reserves.

Depreciation of production and other equipment is calculated by the diminishing balance method based on the estimated useful life of the assets.

Note 2 - Income taxes:

The Companies follow the allocation basis of accounting for income tax timing differences using an estimated tax rate which is less than the current effective rate. While the Accounting and Auditing Research Committee of The Canadian Institute of Chartered Accountants has recommended the use of current effective rates in such a situation, management believes that the procedures being followed result in adequate provision for deferred income taxes. The Companies' policy is more conservative than the general practice in the oil and gas industry in Canada, where the majority of companies do not provide any amounts for income taxes deferred as a result of claiming drilling, exploration and lease acquisition costs in excess of amounts written off in the accounts.

The deferred income taxes actually provided in the accounts, and the additional amounts which would have been provided if current effective tax rates had been used, may be summarized as follows:

	Deferred income taxes actually provided in the accounts	Additional amounts which would have been provided if current effective tax rates had been used
1970	$ 4,794,062	$ 1,800,000
1971	5,533,460	2,300,000
Cumulative totals to December 31, 1971 . . .	46,689,428	16,000,000

Note 3 - Long term debt:

During 1971 the Company refinanced its long term debt with bank loans bearing interest at varying rates above the prime bank interest rate. The Company has agreed that, without the bank's consent, the assets of the Company and its subsidiaries will not be encumbered nor will any debt be

created that would rank prior to or pari passu with the bank loans. The bank has consented to the creation of the debentures referred to in Note 9 and to the security to be given therefor.

Details of bank loans outstanding at December 31, 1971 are as follows:

Repayable in equal quarterly instalments of $416,667 .	$ 8,750,000
Repayable in equal quarterly instalments of $312,500 .	9,062,500
Repayable within four years from March 12, 1971 . .	10,000,000
Repayable within two years from March 31, 1971 . .	7,810,629
	35,623,129
Less: Current portion	2,916,666
	$32,706,463

The annual maturities for long term debt for each of the five years ending December 31, 1976 are as follows:

1972 –	$ 2,916,666
1973 –	10,727,296
1974 –	2,916,666
1975 –	12,916,666
1976 –	2,916,666

Note 4 - Capital stock and paid in surplus:

The changes in capital stock and paid in surplus for the year ended December 31, 1971 are summarized hereunder:

	Number of shares	Capital stock	Paid in surplus
Balance, December 31, 1970 .	30,456,478	$30,456,478	$32,753,010
Exercise of stock options . .	4,000	4,000	42,350
Shares issued for cash re employee profit sharing plans	4,893	4,893	62,195
Shares issued for properties .	732,601	732,601	8,424,911
	31,197,972	$31,197,972	$41,282,466

Pursuant to an agreement dated June 28, 1971 the Company purchased, on December 2, 1971, assets consisting mainly of producing oil and gas properties for approximately $12,750,000 in consideration for the issue of 732,601 shares of the Company at an assigned value of $12.50 per share and the assumption of liabilities of approximately $3,600,000.

Note 5 - Share options:

Options were outstanding at December 31, 1971 granting certain officers and employees the right to purchase 19,500 shares of the Company at prices ranging from $10.50 to $19.70 per share. The options are exercisable from time to time on a cumulative basis and expire in the years 1972 and 1973. During the year 4,000 shares were issued under share option plans for a cash consideration of $46,350.

Note 6 - Reclassification:

Prior to 1971 the cost of the Company's investment in shares of Panarctic Oils Ltd. was included as a cost of petroleum, natural gas and mineral properties. In 1971 the Company reclassified the cost of these shares as an investment in non-controlled companies. The consolidated financial statements for December 31, 1970 have been restated to reflect this reclassification.

Note 7 - Statutory information:

During 1971 there were ten directors and ten officers (as defined by The Canada Corporations Act) of whom four were also directors.

Officers' remuneration and directors' fees for 1971 amounted to $253,739 and $23,400, respectively, none of which was paid by subsidiaries.

Note 8 - Corporate changes:

On November 15, 1971 the name of the Company was changed from Central-Del Rio Oils Limited to PanCanadian Petroleum Limited.

On December 31, 1971 the Company and its wholly owned subsidiary, Canadian Pacific Oil and Gas Limited, were amalgamated under the Canada Corporations Act.

Note 9 - Event subsequent to balance sheet date:

The Company has entered into an agreement, dated January 24, 1972, for the sale on March 1, 1972 to underwriters of $25,000,000 principal amount of 8⅛% Secured Debentures maturing March 1, 1992 for a consideration of $24,350,000 after expenses. The Company intends to apply $5,000,000 of these proceeds to the retirement prior to maturity of a portion of the term bank loans and the balance of such proceeds will be added to the general funds of the Company.

Consolidated Statement of Source and Application of Funds for the Year Ended December 31, 1971

	1971	1970
Funds provided by:		
Net income for the year	$14,497,150	$12,634,944
Expenses not requiring a current outlay of funds –		
Depreciation	2,423,294	2,498,291
Depletion	8,144,034	7,215,608
Deferred income taxes	5,533,460	4,794,062
Funds from operations	30,597,938	27,142,905
Long term bank loans	12,858,524	10,805,725
Issue of shares	9,270,950	44,417
Increase in deferred rentals	38,702	58,031
	52,766,114	38,051,078
Funds applied to:		
Petroleum, natural gas and mineral properties	31,079,524	19,106,410
Plant, production and other equipment	5,771,307	3,296,961
Investment in Panarctic Oils Ltd.	1,572,820	1,451,486
Increase (decrease) in other assets	210,127	(506,890)
Instalments on bank loans	2,916,666	5,851,520
Dividends	9,560,462	8,830,005
	51,110,906	38,029,492
Increase in working capital	1,655,208	21,586
Working capital deficiency at beginning of year	3,448,984	3,470,570
Working capital deficiency at end of year	$ 1,793,776	$ 3,448,984

Auditors' Report

To the Shareholders of
PanCanadian Petroleum Limited:

We have examined the consolidated balance sheet of PanCanadian Petroleum Limited (formerly Central-Del Rio Oils Limited) and its subsidiaries as at December 31, 1971 and the consolidated statements of income and retained income and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
February 18, 1972

PRICE WATERHOUSE & CO.
Chartered Accountants

Seven Year Statistical Review

The figures shown below combine the operations of Central-Del Rio Oils Limited with the operations of Canadian Pacific Oil and Gas Limited in 1971, 1970 and 1969. The prior years have been restated accordingly for comparative purposes. Seven years are now available and the statistics review will ultimately be expanded to include 10 years in the 1974 Annual Report. With the exception of per share figures, dollar amounts are in thousands.

FINANCIAL	1971	1970	1969	1968	1967	1966	1965
Gross Income	$ 39,432	$ 34,928	$ 33,247	$ 33,377	$ 29,584	$ 26,796	$ 23,747
Cash Generated	30,598	27,143	25,854	27,402	24,288	22,348	20,571
Per Share	1.00	0.89	0.85	0.90	0.80	0.74	0.68
Net Income	14,497	12,635	12,124	13,578	12,564	10,742	10,308
Per Share	0.48	0.41	0.40	0.45	0.41	0.35	0.34
Cash Dividends	9,560	8,830	9,350	8,117	6,743	5,516	3,980
Per Share	0.31	0.29	0.31	0.27	0.22	0.18	0.13
Working Capital (Deficiency)	(1,794)	(3,449)	(3,471)	(9,763)	(5,196)	2,938	5,420
Long Term Debt	32,706	22,765	17,180	400	—	—	—
Deferred Income Taxes	46,689	41,156	36,362	31,353	25,604	20,242	16,443
Capital Expenditures							
Exploration	19,349	18,262	23,067	18,757	16,574	12,789	8,858
Development	1,129	844	1,537	2,508	3,433	3,351	9,522
Production Facilities & Equipment	4,373	3,297	2,022	2,552	6,388	3,507	3,635
Total	24,851	22,403	26,626	23,817	26,395	19,647	22,015
Number of Shares Outstanding	31,197,972	30,456,478	30,452,145	30,451,710	30,450,321	30,311,654	30,288,324
Number of Shareholders	8,010	8,374	7,727	7,644	6,889	6,443	5,728

OPERATIONS							
Production - Net							
Oil and Natural Gas Liquids (bbls.)	10,413,083	9,703,787	8,884,316	8,699,602	8,546,597	8,442,107	7,378,694
Daily Average	28,530	26,586	24,341	23,770	23,416	23,129	20,216
Natural Gas (Mcf.)	65,451,962	59,047,895	57,151,781	46,316,019	38,747,585	35,621,847	34,565,140
Daily Average	179,320	161,775	156,581	126,546	106,158	97,594	94,699
Sulphur (l.t.)	92,422	81,805	96,496	85,877	59,673	27,050	18,738
Daily Average	253	224	265	235	163	74	51
Properties - Working Interest Petroleum and Natural Gas							
Gross Acreage	18,697,343	23,216,601	27,603,614	21,670,174	18,989,267	17,082,737	15,810,701
Net Acreage	14,930,372	16,768,363	20,324,109	17,707,530	15,138,216	13,550,007	13,029,094
Wells- Net							
Oil	447.15	425.70	428.84	411.52	412.99	404.99	290.40
Gas	323.43	276.92	266.12	259.80	248.02	215.11	199.85
Number of Employees	412	383	374	385	363	348	323

Exploration expenditures shown above do not include investment in Panarctic Oils Ltd. — 1971 $1,572,820, 1970 $1,451,486, 1969 $1,087,802, 1968 $752,908.

PanCanadian Petroleum Limited

205 Ninth Avenue South East, Calgary 21, Alberta.

Directors

*Alex G. Bailey
Calgary, Alberta

*R. W. Campbell
Calgary, Alberta

John F. Hardy
Calgary, Alberta

M. C. McKinnon
Calgary, Alberta

*H. M. Pickard
Calgary, Alberta

The Honourable Duff Roblin, P.C.
Montreal, Quebec

J. C. Ross
Lethbridge, Alberta

Ian D. Sinclair, Q.C.
Montreal, Quebec

*J. M. Taylor
Calgary, Alberta

*Member Executive Committee.

Officers

R. W. Campbell
Chairman of the Board and
Chief Executive Officer

J. M. Taylor
President

M. C. McKinnon
Executive Vice President

Ian D. Sinclair, Q.C.
Vice President

W. F. Mugler
Vice President – Land

M. A. Rogers
Vice President – Exploration

C. H. Stevens
Vice President and Comptroller

A. Barry Beaven
Vice President – Administration
and Secretary

V. B. Watson
Treasurer and Assistant Comptroller

Shares Listed

Calgary Stock Exchange
Montreal Stock Exchange
Toronto Stock Exchange
Vancouver Stock Exchange

Registrar and Transfer Agent

Guaranty Trust Company of Canada
Calgary-Montreal-Toronto-Vancouver

Banker

The Royal Bank of Canada

Counsel

MacKimmie Matthews
Barristers and Solicitors
Calgary, Alberta

Auditors

Price Waterhouse & Co.
Chartered Accountants
Calgary, Alberta

PanCanadian Petroleum Limited is publishing for the first time a supplementary report on financial and operating information. The report contains more detailed information than it is possible to include in the Annual Report and is mainly provided for the use of security analysts. Any shareholders requesting a copy may obtain one by directing a request to the Company's secretary.

PanCanadian Petroleum Limited

ALCRAFT • CALGARY
LITHOGRAPHED IN CANADA